Solution 1.a:

	Particulars	**Rs**
	Loan Outstanding	6,73,000
Less:	Realizable Value of Securities	(1,50,000)
	Unsecured Portion subject to ECGC cover	5,23,000
Less:	ECGC Coverage (25% on Rs 5,23,000 or Rs 1,00,000 whichever is lower)	(1,00,000)
	Unsecured Portion	4,23,000
Provision to be created:		
	- Unsecured Portion at 100%	4,23,000
	- Secured Portion at 25% (upto 1 year)	37,500
	Total	4,60,500

Solution 1.b: Underwriter's Liability of (No. of Shares) if Benefit of Firm Underwriting is NOT GIVEN to Underwriters
Note: Under this assumption, "Firm Underwriting" is also treated as "Unmarked Applications". Hence, "Unmarked Applications + Firm Underwriting Applications" are apportioned in Gross Liability ratio.

	Particulars	**P**	**Q**	**R**	**Total**
	Gross Liability (in the ratio 3:2:1)	1,50,000	1,00,000	50,000	3,00,000
Less:	Marked Applications	(60,000)	(50,000)	(60,000)	(1,70,000)
Less:	Unmarked Applications & Firm Underwriting in 3:2:1	(57,000)	(38,000)	(19,000)	(1,14,000)
	Balance to be taken under contract	33,000	12,000	(29,000)	16,000
Adjust:	Distribution if surplus to P & Q in Gross Liability (3:2)	(17,400)	(11,600)	29,000	Nil
	Net Liability (See Note)	**15,600**	**400**	**Nil**	**16,000**
Add:	Firm Underwriting	20,000	14,000	10,000	44,000
	Total Liability (No. of shares)	**35,600**	**14,400**	**10,000**	**60,000**
	Total Liability (Amount) (No. of Shares × 15 per share)	5,34,000	2,16,000	1,50,000	9,00,000

Note: Unmarked Application (excl. Firm Underwriting) = Total 2,40,000 – Marked 1,70,000 as above = 70,000 Shares.

Solution 1.c:

	Particulars		**Rs**
	Purchase Price ($1,00,000 × Rs 52) [Spot Rate under AS 11]	52,00,000	
Less:	Trade Discount at 5% on above	(2,60,000)	
	Net Invoice Value		49,40,000
Add:	Import Duty (20% on Net Invoice Value)		9,88,000
Add:	Purchase Tax (assumed no credit available) 10% on (Net Invoice Value + Import Duty)		5,92,800
Add:	Installation Expenses		25,000
Add:	Professional Fees for clearance from Customs		20,000
	Total Cost of Software to be capitalized		65,65,800

Note 1: Cost of Rs 10,00,000 given in question is **ignored**, and Purchase Cost of USD 1,00,000 has been considered.
Note 2: Entry Tax is not added to the Cost of the Software since it is recoverable from the Tax Department.

Solution 1.d: Journal Entries in the Books of Head Office

	Particulars	Dr. (Rs)	Cr. (Rs)
1.	Loan in Transit A/c Dr. To Branch A/c (Being goods sent to Branch lost in transit.)	12,000	 12,000
2.	Salary A/c Dr. To Branch A/c (Being Salary Expense relatable to HO paid by the Branch) (assuming Salary = HO related)	15,000	 15,000
3.	Branch A/c Dr. To Goods sent to Branch A/c (Being goods in transit from Head Office to Branch)	25,000	 25,000
4.	Cheques in Transit A/c Dr. To Branch A/c (Being Cheques in Transit as on 31.03.2012 and reached HO only on 01.04.2012)	10,000	 10,000

5.	Branch A/c To Purchase A/c (Being Purchases made by Branch wrongly debited to Head Office Purchases A/c)	Dr.	25,000	 25,000

Solution 2:

1. Computation of Goodwill

Particulars	Rs
Adjusted Profits for 31.03.2009 = Loss (5,000) + Abnormal Item due to strike 10,000	5,000
Adjusted Profits of 5 years = $\frac{10{,}000 + 5{,}000 + 18{,}000 + 27{,}000 + 30{,}000}{5}$ =	18,000
Goodwill = Average Profit for 5 years × 2 years purchase = 18,000 × 2 =	36,000

2. Computation of Purchase Consideration

	Particulars	Rs
	Goodwill	36,000
	Plant and Machinery	1,02,000
	Fixtures	20,000
	Stock	50,000
	Debtors	30,000
	Total Assets	2,38,000
Less:	Sundry Creditors	48,000
	Purchase Consideration	**1,90,000**

3. Partner's Capital Account

Particulars	**P**	**Q**	**R**	**Particulars**	**P**	**Q**	**R**
To P & M – Loss on revaluation of P&M, distributed in 3:2:1 (1,08,000 – 1,02,000)	3,000	2,000	1,000	By balance b/d	50,000	30,000	20,000
				By Goodwill (36,000 in 3:2:1)	18,000	12,000	6,000
To balance c/d	**95,000**	**60,000**	**35,000**	By Reserve Fund (60,000 in 3:2:1)	30,000	20,000	10,000
Total	**98,000**	**62,000**	**36,000**	**Total**	**98,000**	**62,000**	**36,000**

4. Statement showing the Number and Classes of Shares issued to Partners

Particulars	**P**	**Q**	**R**	**Total**
Closing Capital (after adjustments as per **WN 3**)	95,000	60,000	35,000	1,90,000
Profit Sharing Ratio	3	2	1	
Capital p.u. of Profit	31,667	30,000	35,000	
A. Closing Capital (as per WN 3 Capital A/c above)	95,000	60,000	35,000	1,90,000
B. Taking Q's Capital as Base for ensuring same rights of Shareholding, Equity Shares Rs 10 each to be issued (in 3:2:1 ratio)	90,000	60,000	30,000	1,80,000
C. **Balance to be issued as 9% Preference Shares**	**5,000**	**-**	**5,000**	**10,000**

5. Balance Sheet of PQR Private Ltd as at 31st March (after Takeover of Firm)

	Particulars	Note	This Year	Prev. Year
I	**EQUITY AND LIABILITIES:**			
(1)	**Shareholder's Funds:**		1,90,000	
	a. Share Capital	**1**		
	b. Reserves and surplus		Nil	
(2)	**Current Liabilities:**			
	Trade Payables -given		48,000	
	Total		**2,38,000**	
II	**Assets**			
(1)	**Non-Current Assets**			
	Fixed Assets: Tangible Assets	**2**	1,22,000	

	Intangible Assets – Goodwill on Takeover of P'ship Firm		36,000	
(2)	**Current Assets:**			
	(a) Inventories		50,000	
	(b) Trade Receivables		30,000	
	(c) Cash and Cash Equivalents - Cash in Hand		Nil	
	Total		**2,38,000**	

Note 1: Share Capital

Particulars	This Year	Prev. Year
Authorised: ....Equity Shares of Rs 10 each ....Preference Shares of .... each		
Issued, Subs. & Paid up: 18,000 Equity shares of Rs 10 each (issued for non-cash consideration) .... Pref. Shares of ..... each (issued for non-cash consideration)	1,80,000 10,000	
Total	**1,90,000**	

Note 2: Tangible Assets

Particulars	This Year	Prev. Year
Plant and Machinery	1,02,000	
Fixtures	20,000	
Total	**1,22,000**	

Solution 3.a:

1. Maximum Permissible Buyback

Details	**Rule 1:** Percentage of Shares Bought Back	**Rule 2:** Cash Availability	**Rule 3:** Debt – Equity Ratio
Maximum Buy Back	25% of No. of Shares O/S (if Spl. Resolution is passed)	$\left[25\% \times \frac{\text{Paid up Cap. + Free Res. + Sec. Prem.}}{\text{Buy Back Price}}\right]$	See Note below
Result	25% of 3,00,000 = 75,000 Shares	$25\% \times \frac{30,00,000 + 40,00,000 + 5,00,000 + 18,00,000}{15}$ = 1,55,000 Shares	3,70,600 Shares

Least of the above = Maximum Permissible Buyback = **75,000 Shares.**
The Offer buy back of 60,000 Equity Shares (20% × 3,00,000) is within the above limits, and hence permissible.

Note: Rule 3: Debt Equity Ratio to be 2:1

Particulars	Rs
(a) Desired Debt Equity Ratio after buy back	2:1
(b) Debt (10% Debentures -4,00,000 - Own Debentures 3,3 0,000)	70,000
(c) Equity to be maintained after Buyback = (b) ÷ *2*	35,000
(d) Existing Equity (Share Capital + Free Reserves + Securities Premium)	93,00,000
(e) Permissible Dilution- in Equity = (d)- (c)	92,65,000
(f) Buyback Price	15
(g) Maximum Permissible Buyback in Shares = (e) ÷[(f)+ FV]	3,70,600

2. Journal Entries in the books of M Ltd

	Particulars		Dr.	Cr. (Rs.)
1.	Cash / Bank A/c	Dr.	25,00,000	
	Profit & Loss A/c	Dr.	5,00,000	
	To Investments A/c			30,00,000
	(Being Investments of Rs 30,00,000 sold at a loss of Rs 5,00,000)			

2.	Equity Share Capital A/c (60,000 x Rs. 10) Dr. Premium on Buyback of Equity Shares A/c (60,000 x Rs. 5) Dr. To Equity Shares holders A/c (Being amount due to Equity Shareholders on account of buy back of 60,000 Shares of Rs. 10 each at Rs. 15 per Share as per Special Resolution no... dated......)	6,00,000 3,00,000	 9,00,000
3.	Preference Share Capital A/c (20,000 x Rs. 100) Dr. Premium on Redemption of Preference Shares A/c (20,00,000 x 10%) Dr. To Preference Shareholders A/c (Being amount due to preference Shareholders on account of redemption of 20,000 Preference Shares at 10% Premium as per Resolution no ..... dated ....)	20,00,000 2,00,000	 22,00,000
4.	Securities Premium A/c Dr. To Premium on Buyback of Equity Shares A/c To Premium on Redemption of Preference Shares (Being Premium on Buyback and on Redemption of Preference Shares, provided out of Securities Premium A/c)	5,00,000	 3,00,000 2,00,000
5.	Equity Shareholders A/c Dr. To Cash A/c (Being settlement of amount due to Equity Shareholders under Buyback Scheme)	9,00,000	 9,00,000
6.	Preference Shareholder A/c Dr. To Cash A/c (Being settlement of amount due to Preference Shareholders on redemption)	22,00,000	 22,00,000
7.	Reserve Reserves A/c Dr. To Capital Redemption Reserve A/c (Being amount transferred to CRR = Paid Up Capital Redeemed less Proceeds of fresh issue)	20,00,000	 20,00,000
8	10% Debentures A/c Dr. To Investments in Debentures A/c To Capital Reserve A/c (Being Own Debentures which were held by the Company itself cancelled)	3,30,000	 3,00,000 30,000

Note: Capital Redemption Reserve is not created for Buyback of Equity Shares since Preference Shares are issued two months back, specifically for that purpose, and Capital Base is maintained. CRR is created only for the redemption of Preference Shares, as indicated above.

3. Balance Sheet of M Ltd (after Redemption and Buyback)(Amounts in Rs 000's)

	Particulars	Note	This Year	Prev. Year
I	**EQUITY AND LIABILITIES:**			
(1)	**Shareholder's Funds:** a. Share Capital b. Reserves and surplus	 **1** **2**	 2,400 5,340	
(2)	**Non-Current Liabilities:** 10% Debentures (400-300)		70	
(3)	**Current Liabilities:** Given		40	
	Total		**7,850**	
II	**Assets**			
(1)	**Fixed Assets:** Cost less Deprn = 3,000 - 250		2,750	
(2)	**Non-Current Assets** (5,000 – 3,300) (valued at cost)		1,700	
(3)	**Current Assets:** Loans and Advances (including Cash and Bank Balances) (Given 4,000 + Invts Sold 2,500 – ESC 900 – PSC 2,200)		3,400	
	Total		**7,850**	

Note 1: Share Capital

Particulars (Amounts in Rs. 000s)	This Year	Prev. Yr
Authorised:.......Equity Shares of Rs. 10 each and.....Preference Shares of Rs. 100 each	5,000	
Issued, Subscribed & paid up: 2,40,000 Equity Shares of Rs. 10 each	**2,400**	

Note: Additional Disclosures are required under schedule VI (Revised), in the Annual Financial Statements, in respect of Buyback of Shares, Redemption of PSC, and Reconciliation of Number and Amount of Shares.

Note 2: Reserves and surplus (showing appropriations and transfer) (all figures for this year)

Particulars	Opg Bal.	Additions	Deductions	Clg Bal.
Capital Reserve	10	Sale of Invts = 30	Nil	40
Capital Redemption Reserve	Nil	PSC Redemption = 2,000	Nil	2,000
Securities Premium Account	500	Nil	Buyback + PSC Red.=500	Nil
Other Revenue Reserves	4,000	Nil	2,000	2,000
Surplus = Profit & Loss A/c	1,800	Nil	Loss on Sale = 500	**1,300**
Total	**6,310**	**2,030**	**3,000**	**5,340**

Solution 3.b:

FINANCE LEASE - It is a lease which transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee by the lessor but not the legal ownership.

In following situations, the lease transactions are called finance lease:

- The lessee will get the ownership of leased asset at the end of the lease term.
- The lessee has an option to buy the leased asset at the end of term at price, which is lower than its expected fair value on the date on which option will be exercised.
- The lease term covers the major part of the life of asset.
- At the beginning of lease term, present value of minimum lease rental covers substantially the initial fair value of the leased asset.
- The asset given on lease to lessee is of specialized nature and can only be used by the lessee without major modification.

Solution 4:

1.Journal Entries in the books of K Ltd for Internal Reconstruction on 1st April

	Particulars	Dr.(Rs.)	Cr.(Rs.)
1.	Equity Share Capital (Rs. 100) A/c Dr. To Equity share capital (Rs. 10)A/c (Being the sub-division of 20,000 equity shares of Rs. 100 each into 2,00,000 Shares of Rs. 10 each)	20,00,000	 20,00,000
2.	Equity share capital (Rs. 10) A/c Dr. To Reconstruction A/c (Being surrender of 50% of equity share capital Rs 10 and transferred to Reconstruction A/c for cancellation)	10,00,000	 10,00,000
3.	Reconstruction A/c Dr. To Bank A/c (Being payment of 10% of the Dividend Payable to Preference Shareholders for 3 years Rs.7,00,000 x 10% x 3 years x 20% payable)	42,000	 42,000
4.	Bank A/c (800 Debentures x Rs. 98 Cum-Interest) Dr. To Own Debentures A/c To Reconstruction A/c (Being Sale of Own Debentures and Gain on Sale transferred to reconstruction A/c) **Note 1:** Cost of Own Deb. Sold Rs. 80,000 x $\frac{\text{Total Cost Rs. 1,92,000}}{\text{Total FV Rs. 2,00,000}}$ = Rs. 76,800 **Note 2:** Assumed that 31st March = Date of Interest Payment, and all Interest Dues have been paid by K Ltd. Hence, no interest adjustment is required for the cum-interest sale.	78,400	 76,800 1,600
5.	12% Debentures A/c Dr. To Own Debentures A/c (Rs. 1,92,000 – Rs. 76,800) To Reconstruction A/c (Being remaining Own Debentures cancelled, and Gain on Cancellation transferred to Reconstruction Amount).	1,20,000	 1,15,200 4,800
6.	12% Debentures A/c Dr.	3,00,000	

	Reconstruction A/c Dr. To Machinery A/c (Being amount of Rs 3,00,000 settled, by transferred Machinery costing Rs. 3,20,000, Loss on Settlement transferred to Reconstruction).	20,000	3,20,000
7.	Creditors A/c (Rs 5,60,000 – Rs 5,00,000) Dr. To Debtors A/c (Rs 6,25,000 – Rs 6,00,000) To Stock A/c (Rs 4,12,000 – Rs 4,00,000) To Reconstruction A/c **(Balancing Figure)** (Being Assets and Liabilities revalued and adjustment made to Reconstruction A/c)	60,000	25,000 12,000 **23,000**
8.	Reconstruction A/c Dr. To Bank A/c (Being Penalty paid to avoid Capital Commitments).	20,000	20,000
9.	Reconstruction A/c Dr. To Goodwill A/c To Discount on Issue of Debentures A/c To P&L A/c (Being Goodwill, Discount on Issue of Debentures A/c and P&L A/c written off)	4,33,000	20,000 2,000 4,11,000
10.	Reconstruction A/c Dr. To Capital Reserve A/c (Being balance in Reconstruction A/c transferred to Capital Reserve A/c)	5,14,400	5,14,400

2. Computation of Purchase Consideration for Takeover (Merger Method)

Particulars	Rs
(a) To Equity Shareholders of W Ltd = $\frac{\text{Rs } 15,00,000}{\text{Rs. } 100}$ = 15,000 Equity Shares × $\frac{50}{5}$ × Rs 10	15,00,000
(b) To Preference Shareholders of W Ltd. = $\frac{\text{Rs } 4,00,000}{\text{Rs } 100}$ = 4,000 Preference Shares × $\frac{4}{5}$ × Rs 10	3,20,000
Total Purchase Consideration	**18,20,000**

3. Computation of Amount Credited to General Reserve upon takeover of W Ltd (Merger Method)

	Particulars		Rs
	Share Capital of W Ltd.	(Equity Rs 15,00,000 + Preference Rs 4,00,000)	19,00,000
Less:	Purchase Consideration	(Shares of K Ltd issued)	(18,20,000)
	Difference – transfer to Capital Reserve		**80,000**

4. Journal Entries in the books of K Ltd for Takeover of W Ltd on 2nd April (Merger Method)

S.No.	Particulars	Dr. (Rs)	Cr. (Rs)
1.	Business Purchase A/c Dr. To Liquidator of W Ltd A/c (Being Purchase Consideration on takeover of W Ltd recorded) **(WN 1)**	18,20,000	18,20,000
2.	Fixed Assets A/c Dr. Stock A/c Dr. Debtors A/c Dr. Cash at Bank A/c Dr. To Sundry Creditors A/c To 12% Debentures A/c (W Ltd) To Profit and Loss A/c To Business Purchase A/c To General Reserve **(balancing figure) (WN 2)** To Capital Reserve (Being Assets, Liabilities and Reserves taken over and the excess of owners Funds of Transferee Company, i.e. W Ltd, over the consideration due to them, adjusted in General Reserve since the Amalgamation is in the nature of the Merger)	11,50,000 6,80,000 6,15,000 1,55,000	3,15,000 2,00,000 15,000 18,20,000 **1,70,000** 80,000
3.	12% Debentures A/c (W Ltd) Dr. To 12% Debentures A/c (K Ltd)	2,00,000	2,00,000

	(Being issue of 12% Debentures in K Ltd against Debentures held in W Ltd)		
4.	Liquidators of W Ltd A/c Dr. To Equity Share Capital A/c To 9% Preference Share capital A/c (Being discharge of Purchase consideration due to Liquidator of W Ltd)	18,20,000	18,20,000

5. Balance Sheet of K Ltd (and reduced) as at 2nd April (after Takeover & Internal Reconstruction)

	Particulars as at 2nd April	Note	This Year	Prev. Year
I	**EQUITY AND LIABILITIES:**			
(1)	**Shareholder's Funds:**			
	a. Share Capital	**1**	35,20,000	
	b. Reserves and surplus	**2**	10,19,400	
(2)	**Non-Current Liabilities:**			
	Long Term Borrowings 12% Debentures (6,00,000 – 1,20,000 – 3,00,000)		3,80,000	
(3)	**Current Liabilities:**			
	Trade Payables Creditors (5,60,000 – 60,000 + 3,15,000)		8,15,000	
	Total		**57,34,400**	
II	**Assets**			
(1)	**Non-Current Assets**			
	Fixed Assets: Tangible Assets (24,00,000 – 3,20,000 + 11,50,000)		32,30,000	
(2)	**Current Assets:**			
	(a) Inventories Stock-in-Trade (4,12,000 – 12,000 + 6,80,000)		10,80,000	
	(b) Trade Receivables Debtors (6,25,000 – 25,000 + 6,15,000)		12,15,000	
	(c) Cash and Cash Equivalents (38,000 + 78,400 – 20,000 + 1,55,000 – 42,000)		2,09,400	
	Total		**57,34,400**	

Schedule 1: Share Capital

Particulars	This Year	Prev. Yr
Authorised:.......Equity Shares of Rs..... each and.....Preference Shares of Rs.....each		
Issued, Subscribed & paid up: 2,50,000 Equity Shares of Rs. 10 each 10,200 9% Preference Shares of Rs 100 each (Of the above, 1,50,000 Equity Shares and 3,200 Preference Shares are issued for non-cash consideration, in a scheme of amalgamation)	25,00,000 10,20,000	
Total	**35,20,000**	

Schedule 2: Reserves and Surplus

Particulars	This Year	Prev. Yr
(a) Capital Reserve (5,14,400 + 80,000)	5,94,400	
(b) General Reserve (2,40,000 + 1,70,000)	4,10,000	
(c) Surplus Profit and Loss A/c	15,000	
Total	**10,19,400**	

Solution 5.a: **1. Profit and Loss Account of KLM Bank Ltd for the year ended 31.03.2012**

Particulars		Sch.	31.03.2012	31.03.2011
I. Income:	Interest Earned	13	37,95,160	
	Other Income	14	4,87,800	
Total			**42,82,960**	
II. Expenditure:	Interest Expended	15	22,95,360	
	Operating Expenses	16	5,70,340	
	Provisions and Contingencies		8,50,000	
[Bad Debts (10,00,000 × 45%)	+ Further B/D 2,00,000 + Tax Provn 2,00,000)			
Total			**37,15,700**	
III. Profit/Loss:	Net Profit for the year		5,67,260	
Add:	Profit/(Loss) Brought Forward		Not Given	

Total			**5,67,260**	
IV. Appropriations:	Transfer to Statutory Reserve (25% of 5,67,260) Proposed Dividend (5% of 10,00,000) Balance carried over to Balance Sheet **(bal.fig)**		1,41,815 50,000 **3,75,445**	
Total			**5,67,260**	

Disclosure in B/Sheet: Balance of Rs 3,75,445 will appear in Reserves and Surplus in Schedule 2 of the Balance Sheet.

Schedules to the Profit and Loss Account

Schedule 13 – Interest Earned	**31.03.2012**	**31.03.2012**
Interest / Discount on Advances / Bills [38,00,160 + 15,000 – 20,000] (Net of Rebate of Bills discounted)	37,95,160 -	
Total	**37,95,160**	

Schedule 14 – Other Income	**31.03.2012**	**31.03.2012**
Commission Exchange and Brokerage	1,90,000	
Rent Received	72,000	
Profit on Sale on Investments	2,25,800	
Total	**4,87,800**	

Schedule 15 – Interest Expended	**31.03.2012**	**31.03.2012**
Interest on Deposits	22,95,360	
Total	**22,95,360**	

Schedule 16 – Operating Expenses	**31.03.2012**	**31.03.2012**
1. Payment to and Provisions for Employees – Salaries & Allowances	2,50,000	
2. Rent and Taxes paid	1,00,000	
3. Stationery Expenses	38,000	
4. Director's Fees, Allowances and Expenses	35,000	
5. Postage & Telegrams	65,340	
6. Depreciation on Bank's Properties	40,000	
7. Auditor's Fees	12,000	
8. Preliminary Expenses (fully written off in the absence of information)	30,000	
Total	**5,70,340**	

Solution 5.b:

Form B – RA – Revenue Account of Jasmine Fire Insurance Co. Ltd for the Year ended 31.03.2012

	Particulars	**Sch.**	**Rs**
A.	Premium Earned (Net)	1	11,75,000
	Total (A)		**11,75,000**
1.	Claims Incurred (Net)	2	5,40,000
2.	Commission	3	3,00,000
3.	Operation Expenses related to Insurance Business	4	2,00,000
	Total (B)		**10,40,000**
	Operating Profit/(Loss) from Fire & Marine Ins. Business (A-B) Total (C)		**1,35,000**

Schedule 1 – Premium Earned (A – B)

	Particulars	**Rs**
	Premium Received	12,50,000
Less:	Premium paid on Re-insurance	(50,000)
	Net Premium	12,00,000
Less:	Adjustment for Change in Reserve for Unexpired Risks = 50% OF Net Premium Less Opening balance in URR (50% of 12,00,000 less 5,75,000)	(25,000)
	Total Premium Earned (Net)	**11,75,000**

Schedule 2 – Claims Incurred (Net)

	Particulars	Rs
	Claims Paid – Direct	5,00,000
Add:	Claims Outstanding at the end of the year	80,000
Less:	Claims Outstanding at the beginning	(50,000)
	Total Claims Incurred	**5,30,000**
Add:	Legal Expenses in relation to claims	10,000
	Total	**5,40,000**

Schedule 3 – Commission Expenses = Rs 3,00,000

Schedule 4 – Operating Expenses related to Insurance business: Expenses of Management = Rs 2,00,000

Solution 6.a:

Journal Entries in the Books of Himalayas Ltd

Date	Particulars		Dr. (Rs)	Cr. (Rs)
01.07.2011	Investment in Own 8% Debentures A/c	Dr.	95,000	
	Interest on Own 8% Debentures A/c	Dr.	2,000	
	To Bank A/c **(WN 1)**			97,000
	(Being 1,000 Debentures purchased at Rs 97 cum Interest. Payment = 97,000, Interest from 1st July to 30th Sep = $1,00,000 \times 8\% \times \frac{3}{12}$ = 2,000, hence, balance = cost)			
01.07.2011	8% Debentures A/c	Dr.	1,00,000	
	To Investment in Own 8% Debentures A/c			95,000
	To Profit on Cancellation of Own Debentures A/c			5,000
	(Being cancellation of own Debentures)			
30.09.2011	Interest Expense A/c	Dr.	36,000	
	To Bank A/c ($9,00,000 \times 8\% \times \frac{6}{12}$)			36,000
	(Being half yearly Debenture Interest paid on Rs 9,00,000 for 6 months)			
29.02.2012	Investment in Own Debentures A/c (1,800 × Rs 99)	Dr.	1,78,200	
	Interest on Own 8% Debentures A/c	Dr.	6,000	
	To Bank A/c			1,84,200
	(Being 1,800 Debentures purchased at Rs 99 ex-interest. Interest from 1st Oct to 29 Feb, i.e. for 5 months = $1,800 \times 100 \times 8\% \times \frac{5}{12}$ = Rs 6,000)			
29.02.2012	8% Debentures A/c	Dr.	1,80,000	
	To Interest on Own 8% Debentures A/c			1,78,200
	To Profit on Cancellation of Own Debentures A/c			1,800
	(Being cancellation of Own Debentures)			
31.03.2012	Interest Expense A/c	Dr.	28,800	
	To Bank A/c ($7,20,000 \times 8\% \times \frac{6}{12}$)			28,800
	(Being Half-Yearly Interest paid on Debentures Rs 7,20,000 for 6 months)			
31.03.2012	Profit & Loss A/c	Dr.	64,800	
	To Interest Expense A/c			64,800
	(Being Interest Expense transferred to Profit & Loss A/c)			
31.03.2012	Profit on Cancellation of Own Debentures A/c	Dr.	6,800	
	To Profit & Loss A/c			6,800
	(Being Profit on Cancellation transferred to Profit & Loss A/c)			

Solution 6.b:

Computation of Unrealised Profits

Particulars of transfer to	Department A	Department B	Department C	Total
From Department A to B and C at 20% and 15% of Cost	Nil	$7,200 \times \frac{20}{100} = 1,200$	$5,750 \times \frac{15}{115} = 750$	1,950
From Department B to A and C at 10% and 20% of Sales	$19,000 \times \frac{10}{100} = 1,900$	Nil	$15,000 \times \frac{20}{100} = 3,000$	4,900

From Department C to A and B at 15% and 10% of Cost	4,600 × $\frac{15}{115}$ = 600	10,000 × $\frac{10}{110}$ = 300	Nil	900
Total	**2,500**	**1,500**	**3,750**	

1. Computation of Correct Departmental Profit after charging Manager's Commission correctly

	Particulars	Department A	Department B	Department C
	Profits after charging Mgr commission	36,000	27,000	18,000
Add:	Wrong Commission = 10% of Profits = 1/10 on Profits before charging Commission = 1/9 on Profits after charging Commission	1/9 × 36,000 = 4,000	1/9 × 27,000 = 3,000	1/9 × 18,000 = 2,000
	Profits before charging Commission	40,000	30,000	20,000
Less:	Unrealised Profits i.e. Stock Reserve	(1,950)	(4,900)	(900)
	Profits qualifying for commission	38,050	25,100	19,100
Less:	Commission at 10% of above	(3,805)	(2,510)	(1,910)
	Correct after charging Commission	**34,245**	**22,590**	**17,190**

Solution 7.a:

1. Fair Value at the inception of Lease = Rs 1,50,000 (given)
2. Present Value of Minimum Lease Payments from Lessee's viewpoint –

Year(s)	Cash Flow Item	Amount	PV Factor	PV
1 – 4	Annual Lease Rental (ALR)	40,000	0.89 + 0.79 + 0.70 + 0.622 + 0.552 = 3.554	1,42,160
5	Guaranteed Residual Value (GRV)	10,000	0.552	7,728
	Total			**1,49,888**

3. Value of Liability = Fair Value of the Asset or PV of Minimum Lease Payments, **whichever is lower =** Rs 1,49,888.

Journal Entry

	Particulars	Dr. (Rs)	Cr. (Rs)
	Assets A/c Dr. To Lessor A/c (Being the asset taken on Finance Lease by the Lessee)	1,49,888	 1,49,888

Solution 7.b:

Cost: The cost of the Asset acquired is determined as under –

	Particulars	Rs
	Fair Market Value 1,50,00 or Net Book Value of Asset given up 1,75,000 **(Note)**	1,50,000
Add/ (Less):	Balance Cost or other consideration paid (or received)	20,000
	Cost of Asset acquired	**1,70,000**

Note: Fair Market Value may be determined by reference either to asset given up or asset acquired, whichever is more clearly evident. In this case, both values are available, and on prudence basis, the lower amount is considered.

Journal entry

Particulars	Dr. (Rs)	Cr. (Rs)
Plant X A/c Dr. Loss on Disposal of Plant X A/c To Plant B A/c (Being new asset acquired under the scheme of exchange)	1,50,000 25,000	 1,75,000

Solution 7.c: Based on the evidence available at the time of financial statements approved, there is no present obligation as a result of past event because its existence on the balance sheet date is considered 'Not probable'. Therefore, no provision should be recognised.

For testing the obligation/event for contingent liability there should be —

- Possible obligation as a result of past events
- Existence of liability on the date of balance sheet which will be confirmed by the court decision (future event)

- Existence of possible obligation should be *not probable* but not remote.

Therefore, Rs. 900 lacs will be disclosed as contingent liability on the date of balance sheet.

Solution 7.d:

Aspect	Description
Applicability	Company incorporated, formed and registered under this Act, and includes its Subsidiary Company incorporated in a Country outside India.
Class	Sweat Equity Shares must be of **a class of Shares already issued** by the company.
Special Resolution	(a) Issue of Sweat Equity Shares must be authorised by a **Special Resolution** passed by the Company in General Meeting. (b) The Resolution must specify – (i) Number of Shares, (ii) Current Market Price, (iii) Consideration, if any, and (iv) Class(es) of Directors/ Employees to whom such Shares are to be issued.
Timing	A Company can issue Sweat Equity Shares **only after 1 year** from date on which the Company was entitled to commence business.
Guidelines	Sweat Equity Shares should be issued in accordance with – • SEBI (Employees Stock Option Scheme & Employees Stock Purchase Scheme) Guidelines, in case of **Listed Companies,** • Unlisted Companies (Issue of Sweat Equity Shares) Rules, in case of **Unlisted Companies.**
Treatment	All the limitations, restrictions and provisions relating to Equity Shares is applicable to Sweat Equity Shares issued by the company.

Solution (7) (e) (i) CHANGE IN ACCOUNTING POLICY :

Example 1. Change of depreciation method from WDV to Straight-line method and *vice versa.*

Example 2 : Change in cost formula in measuring the cost of inventories.

Qn (7) (e) (ii) CHANGE IN ACCOUNTING ESTIMATE :

Example 1. Estimation of provision of sundry debtors.

Example 2. Estimation of provision for any liabilities.

Qn (7) (e) (iii) EXTRA ORDINARY ITEMS :

Example 1. Attachments of property of the enterprise

Example 2. Loss due to Earthquake or Fire or Flood etc.

Qn (7) (e) (iv) Prior Period Items

Example 1. Error in calculation in providing expenditure or income.

Example 2. Omission to account for income or expenditure.